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Finance Canada

News Release

Immediate release

Ottawa, November 3, 2003
2003-056

Economic and Fiscal Update: Balanced Books Despite Slower Growth

The Government is on track to keep its books balanced or better despite the economic shocks that battered the Canadian economy in 2003, John Manley, Deputy Prime Minister and Minister of Finance, said today in his latest Economic and Fiscal Update.

"We will not run a deficit this year," Minister Manley stated in his presentation to the House of Commons Standing Committee on Finance in Ottawa. He added, "Canada's economic fundamentals remain sound, and our economy remains well placed to show sustained growth over the medium term, even in this somewhat uncertain global environment."

Minister Manley pointed out that during the past year, Canadians faced an unprecedented series of economic challenges, including the severe acute respiratory syndrome (SARS) outbreak, the fallout from the single case of mad cow disease, power blackouts in Ontario and massive forest fires in B.C. These factors, combined with the rapid increase in the value of the Canadian dollar, will lead to slower growth this year and next, as well as smaller budget surpluses, compared to the February 2003 budget forecast.

At the same time, solid domestic spending and the strong rebound in the U.S. economy are expected to revive the Canadian economy over the balance of this year and in 2004.

Private sector economists project the Canadian economy will grow by 1.9 per cent this year, down from the 3.2-per-cent estimate in the 2003 budget. For 2004 they forecast 3-per-cent growth, down from 3.5 per cent in the 2003 budget. But the economists also caution that uncertainty about the sustainability of the U.S. recovery and the impact of the rapid appreciation of the dollar could affect these forecasts.

From a fiscal perspective, the Minister told the committee that the $4-billion surplus forecast for this year in the February 2003 budget has been reduced to $3.5 billion, reflecting the impact of the weaker-than-expected economy on government revenues. In addition, new spending measures totalling $1.2 billion have been announced. This includes unforeseen yet crucial measures to assist Canadians affected by SARS and the economic fallout from mad cow disease and to support our role in Afghanistan. As a result, there is $2.3 billion left in what was a $3-billion Contingency Reserve to protect the balanced budget target.

Mr. Manley said that, in spite of this fact, the Prime Minister has written to the premiers, indicating that, in the interest of promoting the spirit of cooperation central to the February 2003 Health Accord, the federal government will provide up to $2 billion of any federal surplus this year for health spending when the books are closed next fall.

The February 2003 budget commitment had been to provide this additional funding only if the federal surplus for this year was more than $3 billion. Today's announcement is a one-time change in policy in regard to the Contingency Reserve. The federal government's commitment to balancing Canada's books remains the cornerstone of its fiscal planning.

The Minister added that weaker economic growth in 2003 and 2004 will have an ongoing negative effect on government revenues. As a result, before any allocation for prudence, private sector economists are forecasting small budgetary surpluses of $3 billion in 2004–05 and 2005–06, $4 billion in 2006–07, $6 billion in 2007–08 and $9.5 billion in 2008–09. These surplus estimates reflect the cost of initiatives announced since the last budget.

These surpluses will allow the Government to set aside the normal $3-billion Contingency Reserve every year. However, they are not sufficient to permit any additional economic prudence until 2006–07.

Minister Manley noted: "It should be remembered that without the fiscal discipline of the last several years, we would be facing a real deficit situation and a return to a growing national debt—a burden that would continue to weigh even more heavily on future generations. And over the long term I believe this would pose the single biggest threat to our ability to spend on the programs that Canadians want and need."

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